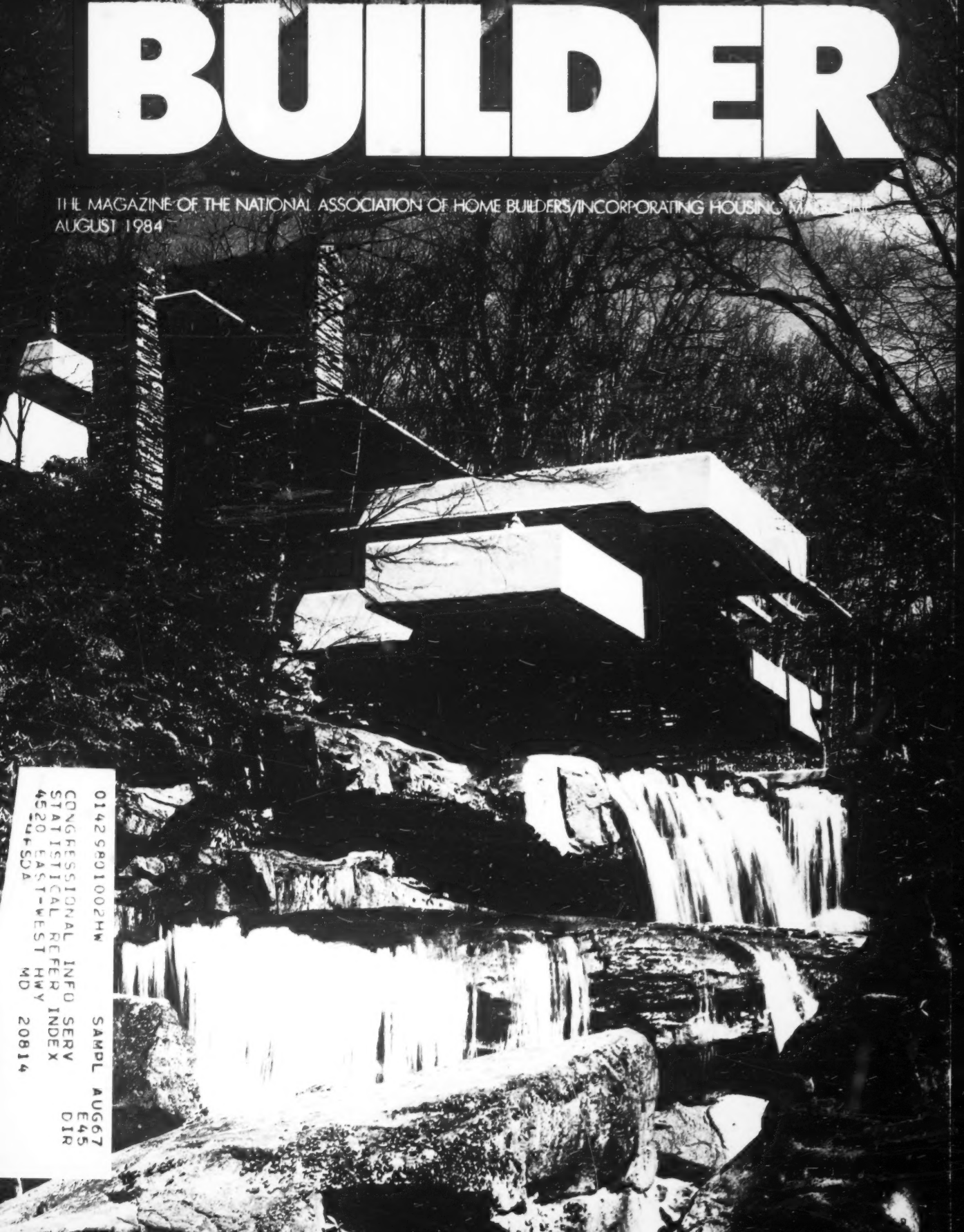
BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING M[illegible]
AUGUST 1984



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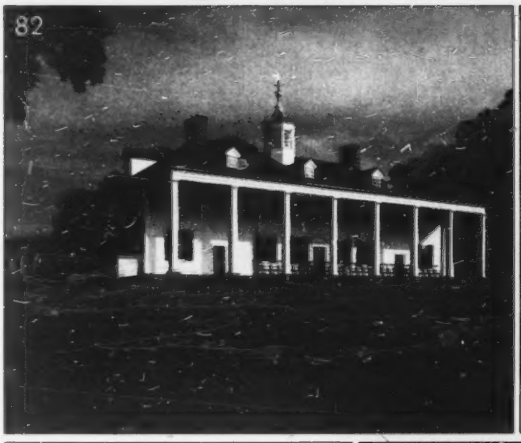
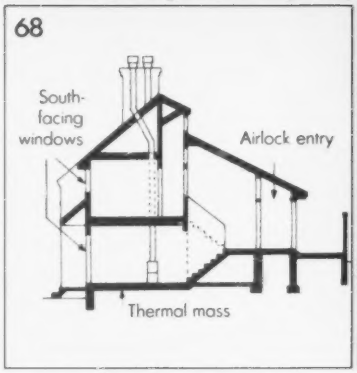




68—ENERGY HYBRIDS
Builders around the country are warming up to the idea of using not one energy-saving system but a combination tailored to the design and site of the units.

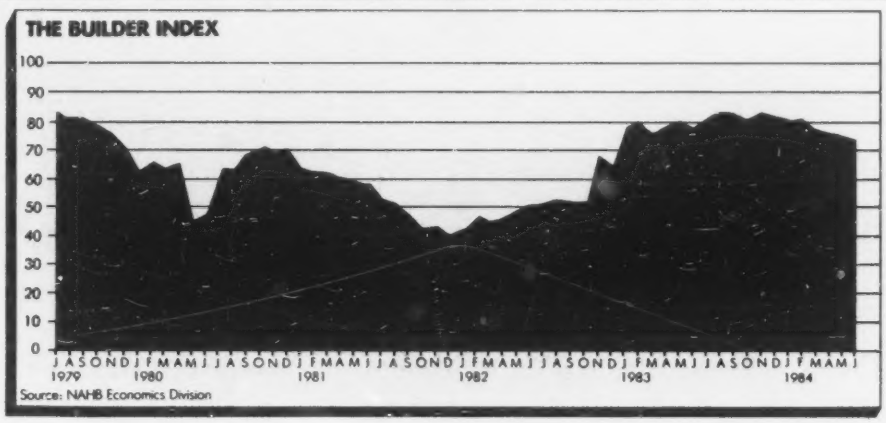
76—MR. BUILD
Remember that name. Art Bartlett is betting that Mr. Build—the name of his building services franchise—will become a household word.

82—ORIGINALS
Why do American houses look the way they do? A collection of 10 famous houses that charted the course for American housing design.
(Cover: Fallingwater, Bear Run, Pa. Photo: Ezra Stoller, copyright ESTO)

96—PROJECT OF THE MONTH
Beneath the grime and slapdash changes on the Schneider Block in Durango, Colo., was a gem of a building to rehab. No fool's gold, this.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



The BUILDER Index dropped sharply to its lowest level in almost a year and a half—74.80—indicating a slowdown in future housing activity.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Taxing Problem

Michael Sumichrast
NAHB Chief Economist, Washington, D.C.

Interest rates, to a large degree, determine what happens to housing. The federal deficit, in turn, will determine what happens to interest rates.

Whether or not Congress tackles the problem at all in the current session, a long-term solution to the deficit must be found. The solution probably will involve cutting expenses and raising revenues, but striking the right balance won't be easy.

As the problem-solving process begins—and it won't go into high gear until after the election—there is some general agreement about the nature of the problem. It's commonly accepted that:

- Economic growth and the corresponding increase in tax revenues can't singlehandedly solve the deficit problem;
- Spending cuts by themselves won't solve the problem. A tax increase is necessary;
- The share of government spending must drop from the current 24 percent of GNP to about 20 percent. At the same time revenues should increase from the current 19 percent of GNP to 21 percent;
- Interest rates are too high—even the President and the Secretary of the Treasury agree. They inhibit economic growth and are pushing the international debt situation to the brink of disaster;
- Printing more money won't solve anything.

A paper by economists Henry J. Aaron and Harvey Galper of the Brookings Institution, a think tank in Washington, D.C., states that the present tax system distorts investment, compensation and savings, penalizes work, is appallingly complex and is blatantly unfair.

Aaron and Galper propose that people be taxed on their cash flow, not their income. This way each person will be taxed on all cash receipts, minus savings. The top rate would be 32 percent with a deduction equal to the poverty-level income.

Corporations would be taxed at the top personal rate on their receipts (including borrowings) minus current expenses including investments (but not dividends).

The Brookings proposal also advocates the immediate enactment of a broad-based temporary surtax on personal and corporate income.

But all of this really ignores political reality in Washington. The Brookings proposals are too painful for too many powerful groups.

Most European countries have moved from income taxes into a consumer tax, better known as the value added tax. Today this tax accounts for about one-sixth of total government revenue among the countries of the European economic community. The value added tax is a sales tax levied at each stage of production on "value added"—that is, the difference between total sales and the cost of goods and services purchased from others. In its pure form the value added tax is a tax on all consumption, and it has the same effect as a retail sales tax.

Proponents in this country, particularly former Under Secretary of the Treasury Charles E. Walker, estimate that a 1 percent value added tax would raise about $25 billion in additional revenue. Most proposals would set a cap on the percentage of a value added tax. This, Walker said, would have to be done by Constitutional amendment. Introduction of a value added tax should be accompanied by a gradual reduction in individual and corporate tax rates. A corporate income tax is an anomaly in any case. It is not paid by corporations, but by the consumers. As such it distorts capital formation and provides less money for labor.

Most proposals for a value added tax have suggested taxing about 50 percent of all consumption, which more or

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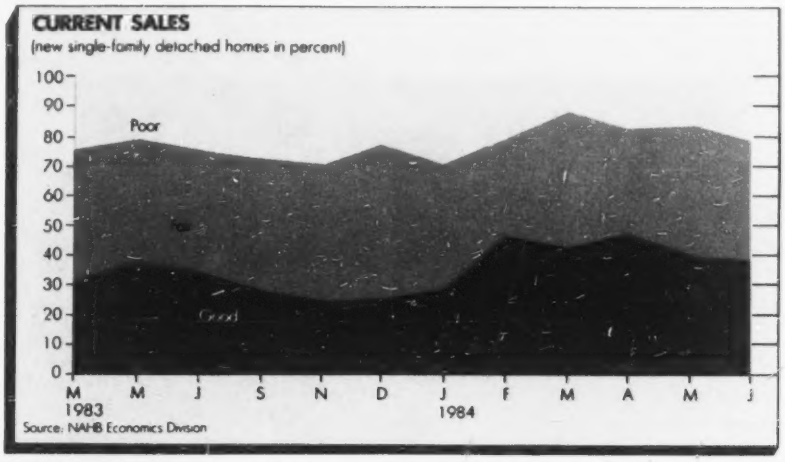
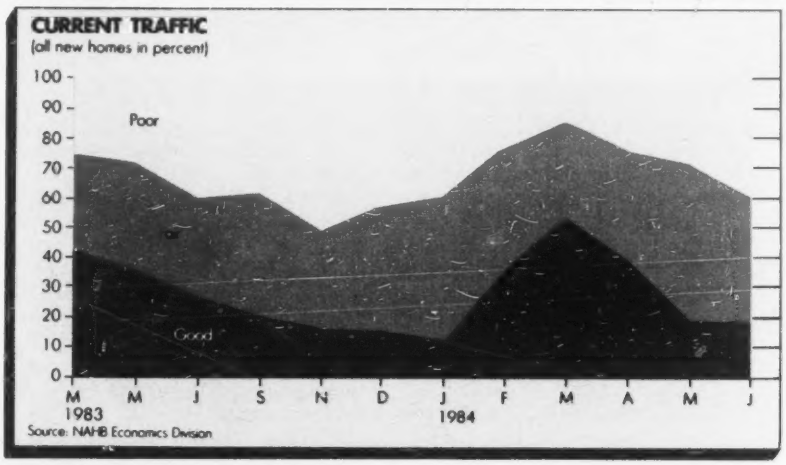
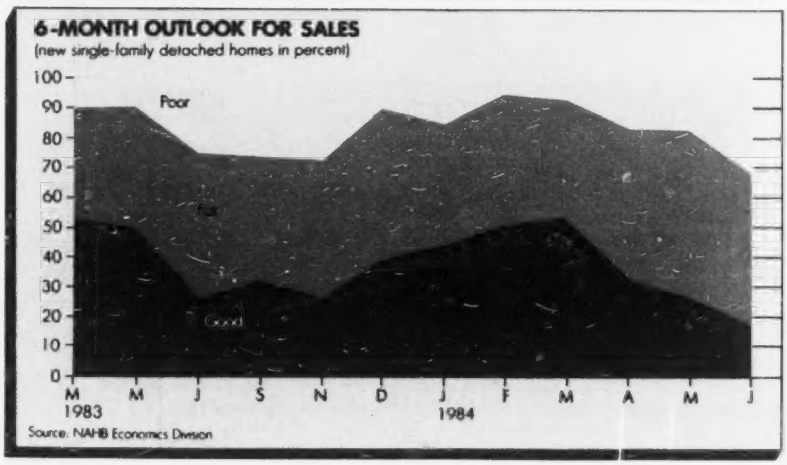






INTEREST RATE BLUES

Every increase in interest rates lowers builders' expectations. That's clear from the results of the June BUILDER poll.

In March, when interest rates had just begun to increase, about 90 percent of the builders surveyed were predicting good to fair sales for the next six months. By June only 68 percent were projecting good to fair sales, and the percentage expecting a poor market for new single-family homes had increased from 9 percent in March to 32 percent.

The expected downturn in sales hadn't really hit home yet, however. In June about 80 percent of the builders still said sales were fair to good. But a builder from Pennsylvania best expressed the consensus outlook: "Right now, it's not bad," he said. "Come October and on, though, we look for very bad times."

Interest rates are seen as the culprit. A Florida builder said, "Rates go up. Sales go down." While a California builder said, "Interest rates are about 2 percent too high for a good market."

While rising rates haven't stopped sales yet, they have caused traffic to slow significantly. Traffic was rated as poor by 40 percent of the builders, compared with 30 percent in May, 24 percent in April and only 15 percent in March.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

RESALES DOWN SLIGHTLY
Existing single-family home sales slipped slightly in May to an annual rate of 3.05 million, the National Association of Realtors (NAR) reported. It was the first decline in five months. However, the May pace was still 7% higher than a year earlier and 62% higher than the recession low of 1.9 million resales recorded in August 1982. NAR expects a gradual slowdown in resale activity during the next 18 months.

SEC. 502 FUNDS SPRUNG
The outlook for rural housing activity improved recently when Congress eased restrictions on the Farmers Home Administration's Sec. 502 single-family program. Fiscal year 1984 funds had been tied up because of a requirement that 40% of the money go to very low-income borrowers who often were difficult to qualify. Because those funds had to be allocated at the same rate as the rest of the money, many builders couldn't use the program at all. To remedy the situation, the new law reduces the very low-income proportion to 30% and allows the two pots of money to be spent separately.

NON-RES BUOYS INDUSTRY
"The building industry is now depending on nonresidential markets to sustain volume as housing starts begin to fade," according to George Christie, vice president and chief economist for the F.W. Dodge division of McGraw-Hill Information Systems. "Prospects for a trade-off between housing and commercial-industrial building are good for the near future." As evidence of this he cited statistics showing a 12% rise in commercial-industrial building in April, most of which was due to another surge in office projects. "The office building boom, which peaked in 1981 as a Sunbelt phenomenon, is now being sustained in the more traditional commercial centers like Boston, New York City and Chicago," Christie said.

PRIME CONTINUES UPWARD
When the prime rate was raised to 13% in late June it was the fourth ½ percentage point increase since March and brought the rate to its highest level since October 1982.

DELINQUENCIES DECLINE
Mortgage delinquencies fell from 5.68% in the third quarter of 1983 to 5.48% in the first quarter of this year, reported the Mortgage Bankers Association. The level of mortgage loans entering the foreclosure process also dropped from 0.21% to 0.19% during the same period.

ONE MORE ARM
Yet another ARM has been introduced by Fannie Mae. Indexed to one-year Treasury bills, the interest rate will be adjusted each year but monthly payments will remain constant for five years. At the end of each five-year period, payments will be adjusted to amortize the loan over the remaining term. Because the new payment will be based on an average of interest rate changes during the five years, borrowers should receive some protection from sudden swings in interest rates. The new ARM includes a 2% cap on annual rate changes and a 4.5% cap on rate changes over the life of the loan. The initial rate equals the first year rate on Fannie Mae's standard one-year ARM.

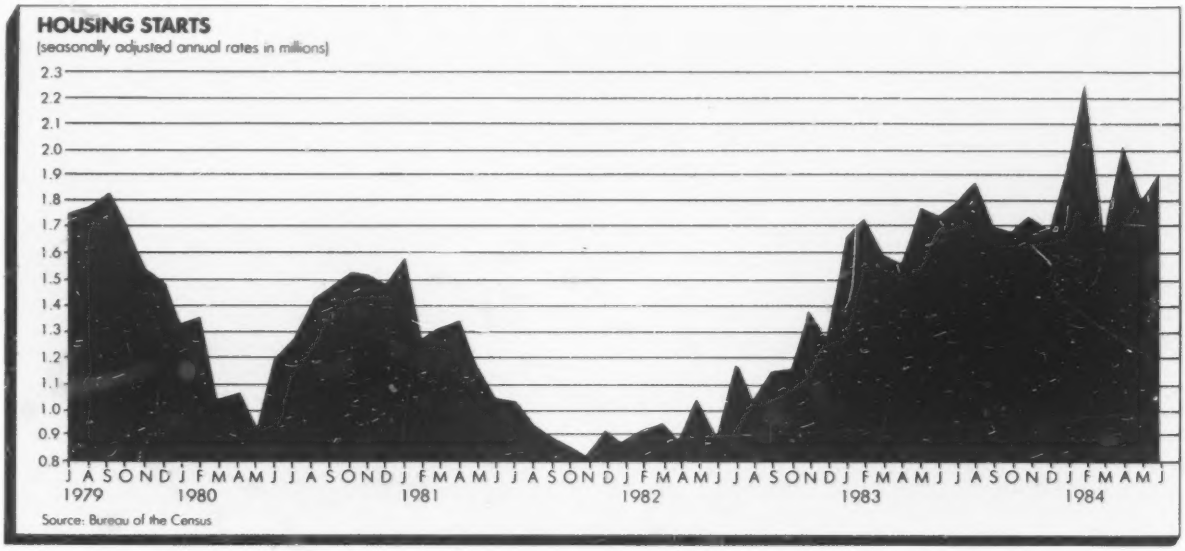
MOVING ON UP
The baby boom generation, now middle-aged, will provide the next big stimulus to the housing market, according to Lawyers Title Insurance Co. This age group sparked demand for affordable starter homes in the 1970s and now wants to move up to larger, more expensive homes.

MORE MORTGAGE SECURITIES
Recent developments in the secondary mortgage market could boost investment in housing. Freddie Mac has introduced a new 15-year mortgage security designed to attract investors seeking intermediate-term investments. The pass-through security is backed by mortgages with maximum original maturities of 15 years. Freddie Mac also has taken the first step toward initiating a conventional multifamily security which could make more money available for multifamily housing. The agency has agreed to buy $1 billion in multifamily mortgages from Financial Corporation of America in exchange for $1 billion in securities. The third recent development in mortgage securities is Ginnie Mae's new ARM security which will finance the new FHA-insured ARM (see page 34).

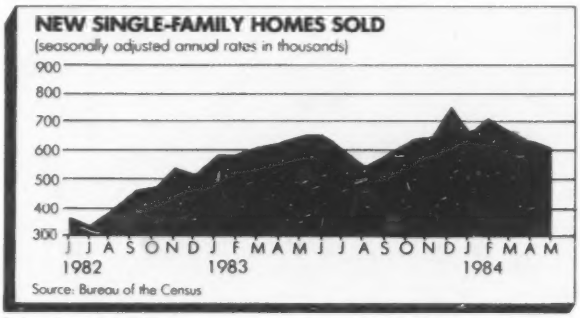
CONTINUED FROM PAGE 11
less is the way the value added tax is being used in Europe. In other words, it would not be totally comprehensive. The level of value added tax varies from country to country and from item to item. For example, in Austria the basic rate is 18 percent, but it varies from only 8 percent on food to 30 percent on automobiles to 13 percent on energy products.

In West Germany the value added tax was raised a percentage point last year to 14 percent to promote investment. This extra revenue was designated to reduce the trade tax and the tax liability on loans for the construction of new owner-occupied homes, to help companies threatened by insolvency and to finance individual housing accounts at building and loan associations.

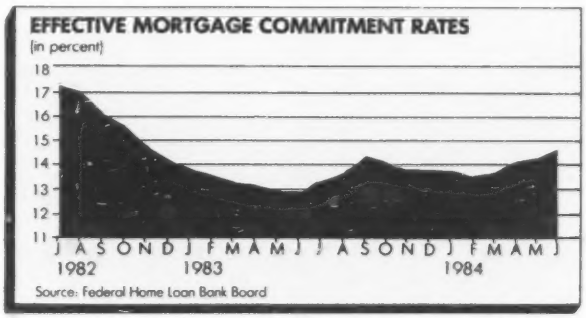
I am sure we will hear much more about the consumption tax after the elections. One way or another people are getting the message that there is no easy, quick solution to our deficit dilemma. Both parties have to work together to get us out of this mess. Even then it seems almost inevitable that some form of a consumption tax will be added: inevitable because of our inability to cut significantly the ever-increasing federal budget.



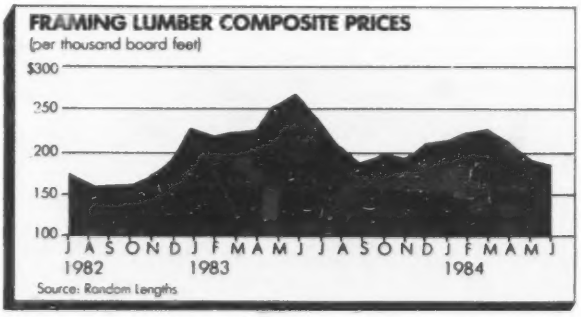
Thanks to a spurt in multifamily construction, starts rose 5.3% in June to an annual rate of 1.9 million units from an upwardly revised May rate of 1.8 million. Single-family starts declined for the second straight month to 1.07 million, a drop of 7%, but multifamily starts surged 27% to 832,000.



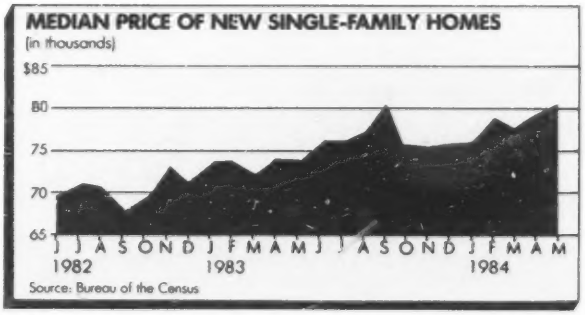
Sales dipped 4.4% in May to an annual rate of 612,000. It was the third consecutive monthly decrease. The May sales rate was down 6% from a year earlier.



Mortgage rates jumped in June—the fourth rise in as many months. Commitment rates on long-term, fixed-rate mortgages climbed 41 basis points to 14.76%; uncapped adjustable rates rose to 12.84%.



Lumber prices declined in June for the third consecutive month. The composite price slipped 2.6% to $188 per thousand board feet. The June price was 28% lower than a year earlier.



The median price of new homes increased by $1,500, or 2%, in May to $80,900. The May price was 8.6% higher than a year earlier.

SURVEY

SINGLE-FAMILY HOMES ARE GETTING BIGGER

Single-family homes are back and getting bigger, according to the latest annual survey of housing trends by RAMS Marketing Inc., New York City.

Based on responses from about 50 of the country's largest volume builders, the study found that single-family houses dominated last year, accounting for nearly 60 percent of the respondents' activity. More than two-thirds of them produced single-family units last year, and 83 percent are doing so this year. In addition, 29 percent built only singles last year and a like number expect to do so again this year.

The pendulum also is swinging back to larger houses, the big builders reported. Where the average single-family house sold last year was 1,482 square feet, this year the average size is projected at 1,598 square feet, an increase of 207 feet.

By price category, homes in the $40,000 to $60,000 range, which represented 19 percent of the respondents' market last year, averaged 1,022 square feet. This year, they expect the size of houses in this category to increase to 1,058 feet but the bracket's market share to drop to 15 percent.

Medium-priced single-family homes—those priced between $60,000 and $90,000—accounted for a third of the respondents' sales, as did units in the $91,000 to $150,000 range. Sizes will be up in the higher price category, from 1,683 to 1,722 square feet, the survey found, but they will drop from 1,392 to 1,366 square feet in the lower bracket.

The most dramatic increases, however, were in the $151,000 to $200,000 price range. The responding builders said their market share in this range would jump from 6.5 percent last year to 15.5 percent in 1984, and that the average size of their most expensive products would increase from 1,917 to 2,171 square feet.

While these large builders expect bigger to be better, the survey also found that they're hedging their bets.

SIZE OF SINGLE-FAMILY HOMES SOLD

	Square feet	
Price	1983	1984
$40,000 to $60,000	1,022	1,058.3
$61,000 to $90,000	1,391.9	1,365.6
$91,000 to $150,000	1,916.6	2,171.4
$151,000 to $200,000	2,500	2,500
$200,000 or more	3,200	3,200

Source: RAMS Marketing Inc.

Sixty-one percent of them are building condominiums this year, while only 39 percent did so last year.

Other findings of interest:

- Almost two-thirds of the respondents used buy-downs and cash discounts last year. Cash discounts averaged 5.43 percent of the purchase price.
- Forty-one percent also are active in the rental market, up slightly from 1983. And their rental units will be larger—up from 881 square feet last year to 893.5 square feet this year.

REMODELING

NEARLY HALF THE NAHB BUILDERS DO REMODELING

Remodeling is big business with builders, and not just in tough economic times: NAHB estimates that 40 percent of its builder members currently are doing residential or commercial remodeling.

One reason is the remodeling market's relatively consistent good health; the national prognosis, according to 91 percent of the 186 remodelers surveyed by NAHB's Remodelors Council in its third quarterly economic survey, is for a continued healthy remodeling market at least through the fall.

That optimism was tempered, however, by concern over the effect year-end interest rates will have on consumer financing. "You don't see the kinds of peaks and valleys of activity in remodeling that you see in new construction," said Bryan Patchan, executive director of NAHB's Remodelors Council, "but the remodeling market has become more sensitive to interest rates in the last few years." The survey reflected that sensitivity: While 22 percent of the builders think the availability of affordable consumer financing is poor now, 35 percent expect it to be poor by fall.

A smaller number of those surveyed—about 15 percent—also expect labor or materials to be scarce by late in the year.

Builders were most optimistic about the market for home additions and alterations, as well as maintenance and repair jobs: 91 percent rated those businesses fair or good through the fall. The outlook was only slightly less optimistic for renovation and rehab, with 80 percent of respondents predicting these jobs would be plentiful.

The survey also showed that remodelers are concerned about their industry image. About 80 percent "strongly supported" establishing construction quality standards for remodeling as well as improving the consumer relations skills of contractors.

REMODELING ACTIVITY RATING FOR 1984

	Percentage of respondents by region				
Rating	Northeast	North Central	South	West	Total
First quarter					
Good	79.1%	48.6%	69.2%	36.0%	56.7%
Fair	20.8	40.5	30.7	44.0	34.5
Poor	0	10.8	0	20.0	8.7
Through third quarter					
Good	73.9	51.5	73.5	54.1	63.2
Fair	21.7	39.3	26.4	25.0	28.4
Poor	4.3	9.0	0	20.8	8.2

Source: National Remodelors Council Economic Survey